

Message Text

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ACTION ARA-20

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TO SECSTATE WASHDC 8517

C O N F I D E N T I A L LIMA 0496

E.O. 11652: GDS

TAGS: BDIS, EFIN, *E

SUBJECT: PLANNED GOP PURCHASE OF CEMENTO ANDINO - U.S.
INTERESTS AFFECTED

1. I HAVE BEEN INFORMED BY CARLOS NEUHAUS RIZO PATRON THAT THE MINISTRY OF INDUSTRY HAS BEGUN CONVERSATIONS WITH REPRESENTATIVES OF CEMENTO ANDINO S.A. LEADING TO THE PURCHASE OF THE FIRM BY THE GOVERNMENT. HE STATES THAT THE BOOK VALUE, AS APPROVED BY THEIR AUDITORS, IS APPROXIMATELY \$13 MILLION AND THAT THE UNOFFICIAL OFFERING PRICE IS \$5 MILLION. HE SAYS THE 38 PERCENT OF THE SHARES, AT \$9.60 PER SHARE, ARE HELD BY FOREIGN INTERESTS, AMONG THEM LEHMAN BROTHERS \$1.08 MILLION, LAZARD FRERES \$636,000, BEAR STEARNS AND CO. \$22*,000, BLYTH AND CO. \$147,000, HURTLEY AND CO. \$119,500. THE LARGEST "FOREIGN" SHARE HOLDER IS THE INTERNATIONAL FINANCE CORPORATION, AN AFFILIATE OF THE WORLD BANK, IN ADDITION, THERE ARE SOME 18 OTHER AMERICAN CORPORATIONS AND INDIVIDUALS WHO OWN SHARES IN CEMENTO ANDINO.

2. MR. NEUHAUS SAYS THAT HE AND HIS UNCLE JAIME RIZO PATRON, FORMER OWNER OF CEMENTO PACASMAYO, HAVE BEEN CHOSEN BY THE AMERICAN SHAREHOLDERS TO REPRESENT THEM IN THE NEGOTIATIONS. NEITHER MR. NEUHAUS NOR HIS UNCLE WISH TO ASSUME THIS RESPONSIBILITY FOR TWO REASONS, 1) THEY ARE BOTH PERUVIAN AND OF THE "OLIGARCHY" AND, JUDGING BY THEIR PAST
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EXPERIENCE, THE*MILITARY GOVERNMENT IS EXTREMELY PREJUDICED

AGAINST THEM, AND 2) THEY BELIEVE THAT IT WOULD BE MUCH BETTER IF THE FOREIGN INTERESTS COULD BE REPRESENTED BY SOMEONE WITH A NATIONALITY OTHER THAN PERUVIAN, PREFERABLY AN AMERICAN. I SUGGESTED THAT PERHAPS THE BEST REPRESENTATIVE THAT THE OVERSEAS SHAREHOLDERS COULD HAVE WOULD BE SOMEONE FROM THE WORLD BANK'S INTERNATIONAL FINANCE CORPORATION, WHICH HAS THE LARGEST INDIVIDUAL OVERSEAS SHAREHOLDER MIGHT NOT ONLY BE A LOGICAL ONE FOR THE REASON BUT ALSO BECAUSE OF THE INTERNATIONAL NATURE OF THE PARTICIPATION AS WELL AS THE IMPORTANCE OF THE WORLD BANK TO THE GOP, MIGHT WELL REPRESENT A RELATIVELY RESTRAINING INFLUENCE ON THE PERUVIAN NEGOTIATORS.

3. WHEN I SAW PRIME MINISTER MERCADO YESTERDAY, I MENTIONED THIS MATTER AS A PROBLEM LOOMING ON THE HORIZON. I POINTED OUT THAT, ASIDE FROM THE UNFORTUNATE TIMING (THE TAKEOVER IS RUMORED FOR MARCH 5) IN CONNECTION WITH THE CULMINATION OF THE GREENE NEGOTIATIONS, IT SEEMED TO ME WORTH SPECIAL CONSIDERATION BECAUSE OF THE FACT THAT THE IFC AS WELL AS LEHMAN BROTHERS, LAZARD FRERES, BEAR STEARNS AND BLYTH WERE ALL INVOLVED AS SHARE HOLDERS. MERCADO SAID THAT THE LAW REQUIRED THAT THE CEMENT COMPANIES BE TAKEN OVER. I SAID I KNEW THIS BUT THAT IT WOULD BE WORTH CONSIDERING THE QUESTION OF TIMING AS WELL AS THE QUESTION OF A REASONABLY FAIR PRICE FOR THE SHARES IN VIEW OF THE SPECIAL CIRCUMSTANCES.

4. SINCE DICTATING THE FOREGOING, I HAVE HAD AN OPPORTUNITY TO MENTION THE POTENTIAL PROBLEM ALSO TO SECGEN GARCIA BEDOYA. HE WAS MORE AWARE OF THE POTENTIAL DANGERS THAN THE PRIME MINISTER. GARCIA BEDOYA AGREED THAT THE POSITION OF THE FOREIGN INTERESTS WOULD BE GREATLY STRENGTHENED IF THE WORLD BANK'S IFC, AS THE MAJOR SHAREHOLDER, COULD BE PERSUADED TO REPRESENT THEM.

5. SUGGEST DEPARTMENT MAY WISH TO CONSULT WITH MAJOR SHAREHOLDERS AND FOLLOW UP ON RECOMMENDATION IN PARA 2.
BELCHER

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